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RV BUSINESS

DECEMBER 16, 1988

New Ford, GM 'A' Chassis Off To Slow Start

Ford Motor Co. has announced that it will delay the introductions of its new 16,000-pound gross vehicle weight Class A chassis, although it has been taking orders for the new units.

Detroit, Mich.-based Ford had planned to begin producing its new Class A unit in November but is now targeting Jan. 23 for production start-up, according to sources. The production delay, reportedly, is not due to any major chassis problem but stems from minor engineering issues.

Meanwhile, General Motors (GM) Corp. confirmed that it has been slow in starting up production of its 16,000-pound chassis, which sources attribute to slow orders due to seasonal factors. Although GM said all engineering work is completed and all parts released for use, the company had built only 14 chassis as of late November.

A GM source said, "The market is a little soft out there, and inventory is high on the manufacturers' side. It's not indicative of a major problem. Traditionally, manufacturers wait until the Louisville Sho[illegible] to get a reading of dealers' attitudes, and you don't see much of an increase or decrease in orders until after the show. Then you can make a better forecast of chassis needs."

However, the slow start-ups for bothFord and GM could mean that they will miss a major opportunity to capitalize on the spring RV market, while providing John Deere's smaller Class A chassis with a competitive reprieve.

continued on page 8

1989 INDUSTRY FORECAST: This special section includes the predictions of analysts and RV executives for the RV industry in the year ahead. See page 23.

RV Industry Hails Bush Election

The election of George Bush as the 41st president of the United States was greeted with enthusiasm throughout the industry. A number of industry members said they believe an ongoing Republican administration will favor the agenda of the business community.

"Of course, it is too soon to tell exactly what a Bush administration is going to mean for our industry," said Jerome C. Loftus, general counsel for RVIA. "What is known is that Bush has been a friend of the industry and a friend of outdoor recreation. Also, he is the one who spearheaded the regulatory relief efforts under President Reagan, so I can't help but believe that he is going to continue to be a friend of the industry. But it is too early to tell exactly which way things will go in his administration."

Elden Smith, vice president of the Riverside, Calif.-based Fleetwood Enterprises Inc.'s RV Group, said: "I view Bush's victory as a very positive development. The prospect of having someone like George Bush as President, someone who has been a lifelong outdoorsman, is

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7 **RV Makers Boost Foreign Trade Efforts**

7 **Coachmen Buys Good Times Van**

Coachmen Drops Upscale Royal Coachmen Unit

NHTSA Probes Brake Defect in GM Trucks

Mallard Debuts Price Stickers On Class A's

RV Licensing Concerns Renewed

CAS Steps Up Recall Of LeSharo/Phasar

Royal Motor Coach to Work On Wanderlodges

Firm Offers No-Frills Park

New Canada Firm Introduces Mini, Class A in U.S.

RV BUSINESS

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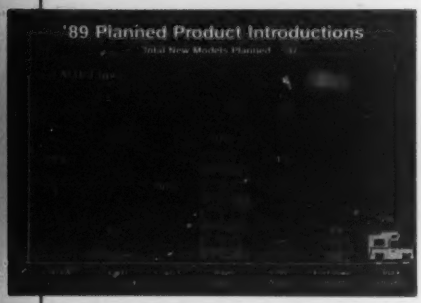

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COVER ART: RON RUSSELL/STOCK IMAGERY

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AUGUST PULLS OUT OF SUMMER SLUMP

THOMAS WALWORTH

East North Central: Illinois, Indiana, Michigan, Ohio, Wisconsin. **Mountain**: Arizona, Colorado, Idaho, Montana, Nevada, New Mexico, Utah, Wyoming. **Northeast**: Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, Vermont. **Pacific**: Alaska, California, Oregon, Washington, Hawaii. **South Atlantic**: Delaware, Florida, Georgia, Maryland, North Carolina, South Carolina, Virginia, West Virginia. **West North Central**: Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, South Dakota.

As the national show season draws near, there is a great deal of interest in the 1988 year-to-date numbers.

Without a doubt, the summer of 1988 did hurt RV sales, and the motorhome market seemed to suffer more than the trailer market. However, the Northeast remains strong for RV trailers, based on retail registrations and a year-to-date comparison of the percentage increase in sales, while the Pacific remains strong for motorhome sales.

In August, the motorhome market had a nationwide decrease in sales of 8.5% from August of last year. But a year-to-date comparison put the market at 3.5% above the same period in 1987.

Figure 1 shows seven regions ranked by the percent of change in motorhome sales from August 1987. Within the highest ranked Pacific region, California had the largest positive percent of change in sales. In the lowest-ranked South Atlantic region, Virginia experienced the largest percentage decline.

Figure 2 shows the same regions ranked by the percent of change in sales for the year-to-date compared with the same eight-month period of 1987. Alaska had the largest percentage increase in the leading Pacific region. In contrast, North Carolia reported the largest negative percentage change in the bottom-ranked South Atlantic area.

Meanwhile, the RV-trailer market in August 1988 registered a 1.73% increase in unit sales compared with August 1987. And for the year-to-date, RV trailers experienced a 5.53% increase compared with 1987.

Figure 3 shows the nation's main regions ranked by their percentage change in sales in August 1988 compared with the same month last year. Among the Pacific states, Alaska reported the largest positive percent of change in trailer sales. For the Mountain region, Colorado experienced the largest decline in August.

The regional year-to-date rankings for RV trailers are shown in Figure 4. In the top-ranked Northeast region, Maine had the greatest percentage increase compared with 1987. At the other end of the spectrum, North Carolina came in with the greatest decline in trailer sales in the lowest-ranked South Atlantic region.

Although there were some declines, it can be concluded from August's figures that the industry is pulling itself out of the July slump.

While the motorhome market was down for the month when compared with August 1987, it still had a 24% improvement compared with the market's July percent of change. The RV-trailer market moved from a 4.5% decline in July to a positive 1.73% increase in the month of August. Both the motorhome and RV-trailer markets continued strong, based on a year-to-date comparison.

As a result, we are looking forward to the third-quarter numbers of September. Δ

MOTORHOME MARKET

August '88 Rank	Region	% of Change From Aug. '87	July '88 Rank
1	Pacific	+11.50	6
2	Mountain	+ 5.33	2
3	W.N. Central	– 9.03	5
4	E.N. Central	–10.90	3
5	Northeast	–17.90	1
6	S. Central	–18.20	4
7	S. Atlantic	–27.60	7

Figure 1

August '88 Rank	Region	% of Change Year-to-Date	July '88 Rank
1	Pacific	+12.30	1
2	Mountain	+11.67	2
3	E.N. Central	+ 3.25	4
4	Northeast	+ 3.20	3
5	W.N. Central	– .08	5
6	S. Central	– 4.67	6
7	S. Atlantic	– 8.91	7

Figure 2

RV-TRAILER MARKET

August '88 Rank	Region	% of Change From Aug. '87	July '88 Rank
1	Pacific	+21.80	4
2	S. Atlantic	+ 7.68	6
3	Northeast	+ 5.02	1
4	S. Central	– .76	3
5	E.N. Central	– 3.10	5
6	W.N. Central	– 7.30	2
7	Mountain	–24.70	7

Figure 3

August '88 Rank	Region	% of Change Year-to-Date	July '88 Rank
1	Northeast	+11.30	2
2	W.N. Central	+10.30	1
3	Mountain	+ 5.11	3
4	Pacific	+ 4.93	4
5	S. Central	+ 1.08	5
6	E.N. Central	– .02	6
7	S. Atlantic	– 3.66	7

Figure 4

GRAPHICS: CUSTOM COLOR VISUALS

FEATURE

1989 FORECAST

RV industry is expected to grow slowly in '89

MORTON J. MARCUS

A slowdown in the growth of the national economy during 1989 will be mirrored in a slowing of the growth rate for the RV industry. This is the main conclusion drawn from the most recent Indiana University forecast for the RV industry.

Industry Overview: 1988-90

1988 is now estimated to close with just under 421,000 units shipped, *up* more than 19,000 units, or 4.8%, from 1987. Yet this was half the amount of growth witnessed in 1987, when total shipments advanced by more than 38,000 units. Next year, the growth in shipments again is expected to be half that of the prior year, gaining just 8,400 units for a 2% increase in 1989 over 1988. If all goes as expected, total shipments for 1989 will then reach nearly 430,000 units.

Preliminary indications for 1990 growth are less optimistic. A slight downward pattern of quarterly shipments is seen in Figure 1. Adjusted for seasonal patterns, the first quarter of 1989 may be the current peak for total shipments, after which there is a slight decline, leading to a flat profile of shipments during much of 1990.

Although it is too early to provide a clear picture of 1990, first impressions indicate no major forces to move the RV industry either upward or downward. A portion of the gains made in 1989 are forecast to be lost, with total shipments for 1990 still coming in above those of 1988.

The Detailed View

1989 will be a flat year for towables and motorhomes. Some segments will be up, and some will be down, but the total amount of movement will be small. *(See Figure 2.)*

Towables, which are estimated to close 1988 with a growth of 4,000 units, are forecast to add just 1,500 units in 1989. That is a growth rate of just 1% and well within the margin of forecasting error, so we might as well call it even for the two years.

Motorhomes are estimated to decline by 2,400 units in 1988 after hitting nearly 75,000 units in 1987. That decline is anticipated to continue in 1989, with a smaller drop of 1,900 units.

Van conversions, by contrast, are estimated to advance by more than 15,000 units (8.4%) by the close of 1988. However, that growth will slow to an increase of less than 10,000 units (less than 5%) for 1989.

The easiest way of summing up 1989 is to say that the higher the price tag, the less likely the advance. Travel trailers, for example, are expected to do about the same amount of volume next year as in 1988. In contrast, folding campers are expected to do just a bit more volume in '89, and a good percentage advance (11%) is expected for

Figure 1

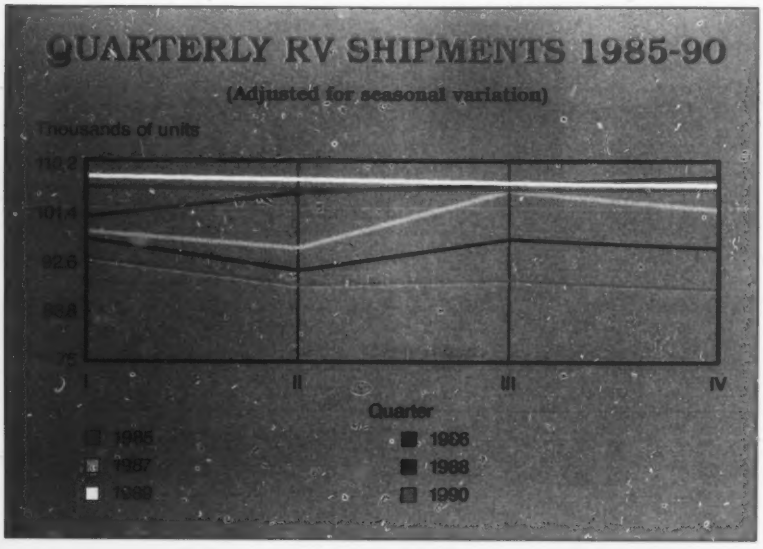
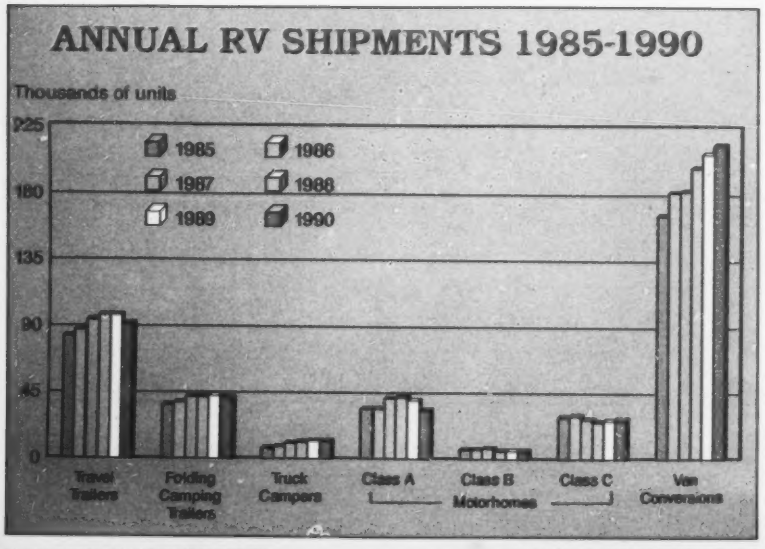


Figure 2



GRAPHICS: CUSTOM COLOR VISUALS

Figure 3

ANNUAL GROWTH RATES AFTER ADJUSTMENT FOR INFLATION

	1987 Actual	1988 Estimated	1989 Forecast	1990 Forecast
Gross National Product	3.4	3.8	2.4	1.3
Consumer Spending	2.7	2.6	1.8	0.9
Business Investment	2.8	10.3	7.5	5.2
Residential Investment	0.1	– 2.5	0.6	–3.0
Exports	13.1	17.2	6.9	4.2
Imports	7.9	7.5	4.4	3.9
Government Purchases				
Federal	1.7	– 3.1	–0.3	–0.4
State & Local	3.3	2.8	3.1	3.0

Figure 4

KEY FACTORS IN THE FORECAST

	1987 Actual	1988 Estimated	1989 Forecast	1990 Forecast
Prime Interest Rate (%)	8.2	9.4	11.7	13.3
Value of the Dollar (1973 = 100)	96.9	92.5	89.6	85.9
Unemployment Rate (%)	6.1	5.4	4.8	4.8
Percent Change at Annual Rates:				
Money Supply (M2)*	6.5	5.1	4.0	5.0
Real Disposable Personal Income	1.7	3.4	2.4	2.0
Consumer Price Index	3.7	4.1	5.1	5.8
Food & Beverage Prices	4.1	4.3	7.4	7.5
Motor-Fuel Prices	4.0	1.3	2.6	5.1

*M2 consists of the nation's basic money supply of currency, plus demand deposits, plus savings accounts at commercial banks.

truck campers, although the actual volume growth of this small sector will be only 1,200 units.

The same pattern holds for motorhomes. Class A motorhomes are expected to decline from 41,800 units shipped in 1988 to 39,300 units next year. Meanwhile, Class B and C units are forecast to have modest gains of 2% each in '89.

For 1990, however, these early forecasts indicate declines in all segments of towables and motorhomes, except for Class C minimotorhomes.

The variations observed in the different segments of the RV market are due to the very different responses of these units to changes in interest rates, disposable income and general economic conditions.

The National Economy

When the books are closed on 1988, real gross national product (GNP), the value of all goods and services produced in the American economy after adjustment for inflation, is projected to be up by nearly 4%. *(See Figure 3.)*

The growth rates forecast for 1989 and 1990 are lower but still positive. No recession is forecast, but that possibility cannot be ruled out.

Consumer spending is expected to be very sluggish in the next two years, and whatever strength the economy will have is likely to come from business investment and export activity. Both of these sectors, however, will not have the strong expansionary influence they have had in 1988.

Further, residential investment and federal government spending are both expected to decline in 1989 and 1990, putting a drag on economic growth.

Figure 5

ANNUAL TRENDS

	1987 Actual	1988 Estimated	1989 Forecast	1990 Forecast
Unit Auto Sales (millions)	10.3	10.6	9.8	9.1
Housing Starts (millions)	1.6	1.5	1.3	1.2
Federal Budget Deficit (billion $)	157.8	135.0	115.0	132.9
Percent Change in Compensation per Manhours	4.6	4.9	5.8	6.5
Productivity	1.0	1.1	–0.3	0.0
Unit Labor Costs (Compensation Less Productivity	3.6	3.8	6.1	6.5

Figure 6

ANNUAL RV SHIPMENTS 1985-90

Year	Total RVs	Percent Change
1985	359,500	
1986	380,500	–5.8
1987	401,700	10.6
1988	420,900	4.8
1989	429,300	2.0
1990	423,100	–1.4

Factors Behind Slow Growth

The reason GNP is expected to advance only moderately in the next two years is that a tight monetary policy is anticipated.

The Consumer Price Index (CPI) is expected to show inflationary pressures, rising by more than 5% again, because of the falling dollar and higher food prices. These factors will cause the Federal Reserve System to restrain the growth of the money supply *(see Figure 4)* as the unemployment rate bottoms out and indicates a full-employment situation.

A tight monetary policy, with continued business investment, will lead to higher interest rates. The prime rate is predicted to reach double-digit levels again. As ever, higher interest rates will slow consumer spending on such items as RVs. These same higher interest rates also will slow the demand for autos and residential construction, so both 1989 and 1990 are expected to be down years for auto sales and housing starts. *(See Figure 5.)*

In 1989, the federal budget deficit should fall as the new administration and Congress follow through with plans already in place to cut spending, but, unfortunately, rising interest rates and a slowing economy will tend to raise the deficit again by 1990. Inflationary pressures will push up compensation per manhour, but, with no productivity growth anticipated, unit labor costs will also rise and provide a cost-push aspect to inflation.

Summary

The RV industry is expected to grow again in 1989, but a squeeze is forecast to take hold during the year, which will lead to a moderate decline in shipments for 1990. *(See Figure 6.)* That forecast is based on the assumption that the forces of inflation will continue to cause a monetary policy of higher interest rates.

Aggressive action on the federal budget deficit, which is being encouraged by every politician, could be just the wrong medicine for an economy nearing a recession in the next two years. But policymakers have left themselves little leeway. The nation learned to read the lips of its favorite candidate in the autumn of 1988. Where selective tax increases could have been used to reduce the deficit, that option is now less feasible. That leaves only two deficit-reduction tools: spending cuts, which are politically difficult to implement, and higher interest rates, which will cut into the very heart of the economy and defeat some of the beneficial effects of spending cuts.

To sum up, while the health of the economy should always be the center of attention, political forces have unfortunately focused on the federal budget deficit, and attempts to correct that budget problem could lead to even greater difficulties as we enter the next decade. Δ

This forecast is specifically produced for RV Business *by the Center for Econometric Model Research at Indiana University. The national forecast was prepared under the direction of Professor R. Jeffery Green, with the RV forecast developed by Lee A. Craig. The text and interpretation are the responsibility of Morton J. Marcus, director of the Indiana Business Research Center at the Indiana University School of Business.*

FEATURE

TOP 20 PROGNOSIS

More than 70% of the polled manufacturers are confident about industry and company growth in the new year

GAIL FONTANA

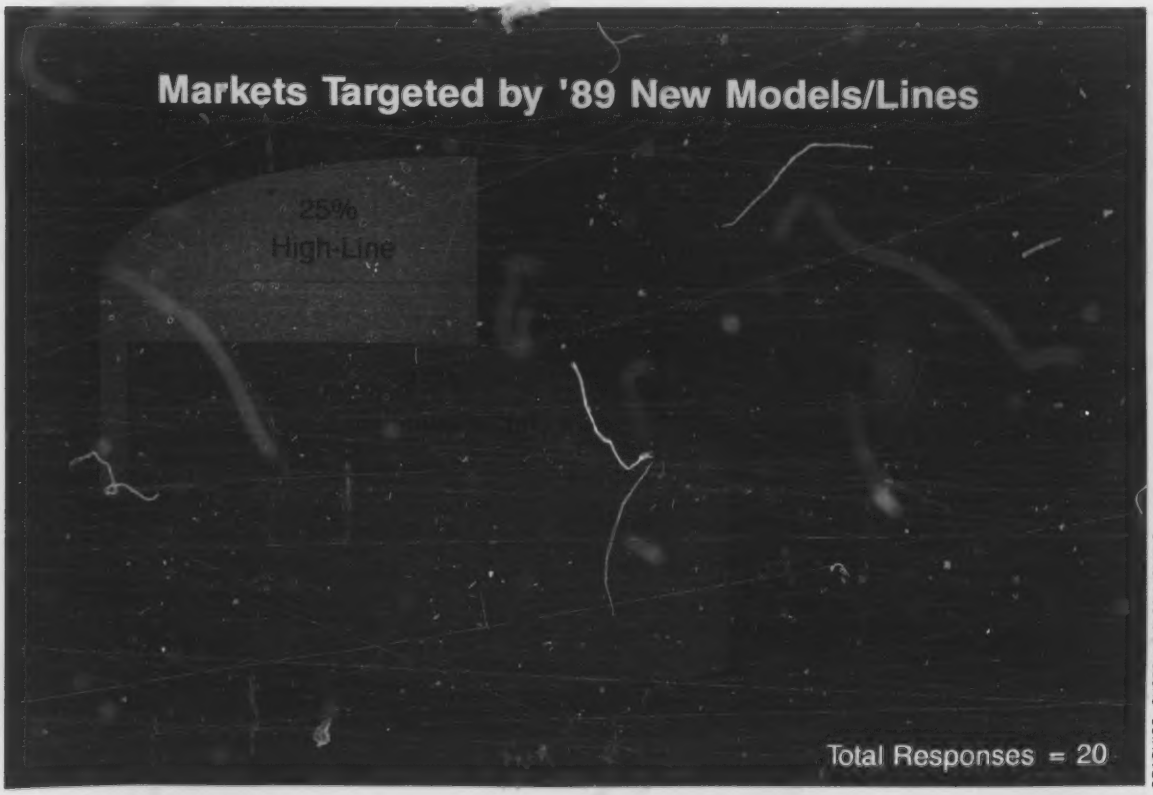
Maybe it is because they are wearing rose-colored glasses, but 85% of the Top 20 RV manufacturers in the country say they anticipate a good year in sales in 1989. And, with not much time left before the new year, those manufacturers already are working toward ensuring that goal.

RV Business surveyed a Blue Chip Panel of the Top 20 RV manufacturers in the country, based on a July 1988 ranking by Grand Rapids, Mich.-based Statistical Surveys Inc. *(See table 1 on page 27.)* All but two of the firms responded to an RVB questionnaire about their plans and expectations for the coming year. Although this should not be viewed as a scientific study, the results should be of interest.

Seven firms, or 39%, anticipate overall 1989 RV-industry sales to be up from 1988 by about 0%-3%; 22% expect sales to rise by 4%-6%. Two firms expect industry sales to remain the same as last year, and only one manufacturer expects sales to decrease by 10% or more. The optimism of this survey is in contrast to a report made earlier in the year by John DeWolf, economic consultant for the Recreation Vehicle Industry Association, Reston, Va., who predicted that RV shipments would decline in 1989 to levels about equal to those of 1987.

Some 89% of the manufacturers believe their own company's sales will increase in 1989 over 1988, and seven firms, or 41% of those who responded, say the increase will be a whopping 10% or more. Four firms, or 24%, anticipate a 4%-6% increase; 24% expect a 7%-9% increase. Only one company projects that its sales will decrease by 10% or more, and one company expects that its sales will remain the same. *(See figure 3 on page 27.)*

As an example of the kind of upbeat '89 outlook among the Top 20, a spokesman for one firm says that his company projects



GRAPHICS: CUSTOM COLOR VISUALS

Figure 1

sales growth that will be more than double that of the industry. Another manufacturer says his company's sales will continue to grow at a higher rate than that of the industry, due to better market penetration.

Apparently, few firms figure that unit price hikes, either caused by raw-material price increases or other factors, will detract from their sales, even though 94% of companies who responded to the questionnaire report that their average unit price is expected to increase in 1989. Fifty-three percent of the respondents expect the average unit price to rise by 0%-5%, about the same percentage increase as generally forecast for raw-material prices.

Among the more price-conscious, a spokesman for one firm does say, however, that "through better efficiencies and technologies, we expect to hold price increases to a minimum."

While one company spokesman holds rising interest rates accountable for a temporary rise in unit prices, most blame raw-material price hikes. A full 89% of the surveyed firms projects that supplier prices will rise by about 0%-5%. Only one manufacturer foresees a rise of between 6%-10%. Not one company expects supplier prices to decrease, but two companies do believe prices will remain the same as in '88.

Manufacturers and suppliers say they are preparing for hikes in steel prices, copper, fiberglass and chassis prices. Aluminum price hikes were anticipated earlier in 1988, but prices have since stabilized, and some analysts even foresee a slight drop in aluminum prices by the end of the first quarter of 1989.

Consistent with their rosy view of the '89 market, most of the Top 20 RV manufacturers say they are planning major product introductions for 1989. *(See figure 2 on this page.)* It is interesting to note that, although travel trailers have not been doing well in recent shipment figures, that is where the bulk of the new units will be, with 27% of the new-unit introductions. Class As and fifth-wheels will each account for 24% of the new units; 16% of the new '89 models will be Class C's.

Of these new units, 40% will be targeted at entry-level buyers, while 35% of the new lines models will be introduced to the mid-priced market. Only 25% of the new units will fall into the high-line category. This means that most of those new units will be in the price range most attractive to first-time buyers. *(See figure 1 on page 26.)*

Sunline Coach Co., Denver, Pa., for one is planning to introduce both medium-priced and entry-level units, including travel trailers and fifth-wheels, into the RV marketplace in order to attract new buyers.

Middlebury, Ind.-based Jayco Inc.'s Chuck McKinney, national sales manager, says that his firm will introduce travel trailers and that Jayco plans "to be very aggressive toward the '89 market, with new products, more sales training and more sales tools." He continues, "We are enjoying a very good sales momentum and have made plans for this to continue."

McKinney seems to sum up the general feeling among the other manufacturers, who, for reasons such as more and better product and increased consumer concentration, say they believe that 1989 will be a good year for themselves and the industry.

Product quality and consumer care are the leading concerns among the Top 20 manufacturers as they head into the new year. "Quality and increased focus on customer satisfaction will continue to be a high priority," notes one respondent, "which in turn will increase sales and give added benefits to the customer through improved products."

Other areas of concern in 1989 include current chassis availability, which one firm calls a "quagmire for manufacturers." The firm's spokesman emphasizes that an adequate supply of chassis is imperative if manufacturers are to offer dealers all types of units for their customers. The chassis problem, he reports, creates planning difficulties: What quantity of chassis should manufacturers request at the onset of production?

Several respondents also cite controversy over show dates and new-model introductions. One spokesman proposes that the industry should join together to cut down manufacturer involvement in shows. The cost to manufacturers is prohibitive, he says, and he suggests that RV dealers should handle any shows that are truly dealer shows. Another industry leader proposes that the National RV Trade Show in Louisville, Ky., be moved away from the major holidays, and that the industry should come to an agreement about the timing of new-model introductions.

These are all issues about which *RV Business* will be reporting in the months ahead. But, despite their concerns, the Top 20 RV manufacturers appear to be looking forward to a prosperous new year for themselves and for the industry in general. Δ

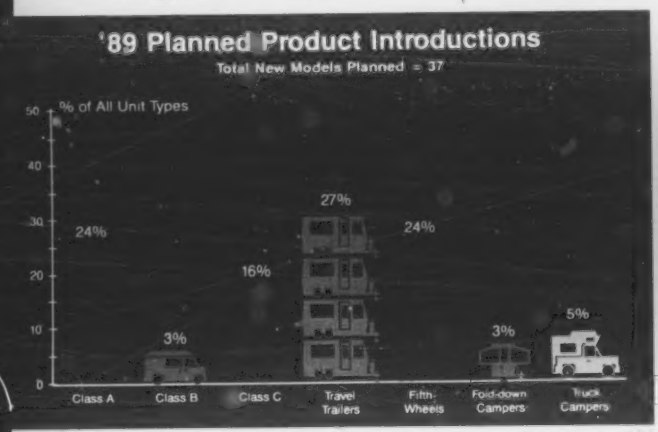


Figure 2

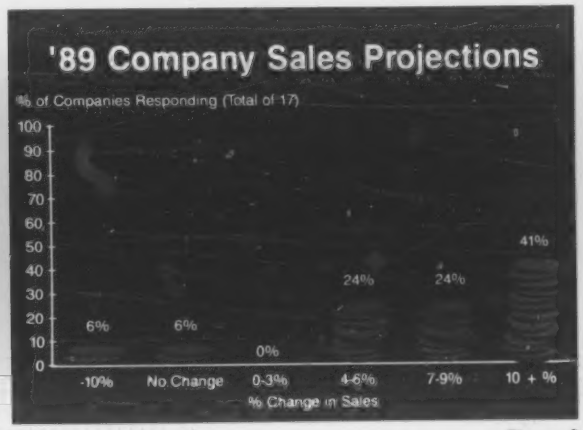


Figure 3

The Top 20 manufacturers per Statistical Survey Inc.'s data, listed alphabetically:
Coachmen Industries Inc.
The Coleman Company Inc.
Fleetwood Enterprises Inc.
Georgie Boy Manufacturing Inc.
Gulf Stream Coach Inc.
Holiday Rambler Corp.
Jayco Inc.
Kit Manufacturing Co.
Komfort Industries Inc.
Mallard Coach Co. Inc.
Rockwood Inc.
Skamper Corp.
Skyline Corp.
Starcraft
Sunline Coach Co.
Tiffin Motor Homes Inc.
Van American Inc.
Vanguard Industries of Michigan Inc.
Vyquest Inc.
Winnebago Industries Inc.

Table 1